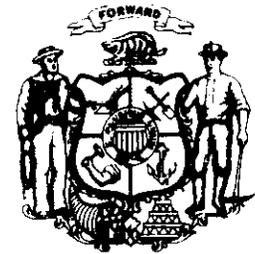


WISCONSIN TAX BULLETIN



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NEW INCOME TAX LAW AFFECTS TAXPAYERS WITH LESS THAN \$12,000 OF INCOME

Significant changes in the individual income tax laws were passed by the Legislature in September and approved by the Governor in October. The new law (Chapter 111, Laws of 1977) was enacted at the request of the Governor and will apply to income tax returns for the 1977 taxable year and subsequent years.

The new law will benefit about 290,000 individuals, all of whose incomes are under \$12,000. The new law enacts 3 types of changes:

- 1) Increases the filing requirement for full-year residents.
- 2) Provides a new low-income allowance which varies depending on a taxpayer's age and marital status.
- 3) Allows the standard deduction and low-income allowance to be increased if a taxpayer has dependents.

Filing Requirement

Under current law (s. 71.10 (2) (a) 4, Wis. Stats.) for the taxable year 1976, the filing requirements vary depending on a taxpayer's age and marital status. The amounts of gross income which require a taxpayer to file a return range from \$1,950 for single persons under age 65 to \$2,900 for married couples when both spouses are age 65 or older.

The new law (s. 71.10 (7) (a) 5) for the 1977 taxable year and thereafter provides that nonresidents and part-year residents are required to file a Wisconsin income tax return if the single person's or married couple's gross income is \$2,000 or more.

Full-year residents will have the following filing requirements for taxable year 1977 and subsequent years:

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Marital status and age

Marital status and age	Required to file if gross income of single person (or if married if combined gross income of both spouses) was:
Single, under 65	\$3,200 or over
Single, 65 or over	\$4,200 or over
Married, both under 65	\$5,200 or over
Married, one spouse under 65 & one 65 or over	\$6,200 or over
Married, both spouses 65 or over	\$7,200 or over

Variable Low-Income Allowance

Taxpayers will continue to have the option of claiming itemized deductions, the percentage standard deduction or the low-income allowance.

Under current law for the 1976 taxable year, the percentage standard deduction is 15% of Wisconsin total income, not to exceed \$2,000 for a single individual or \$2,000 in the aggregate for a husband and wife. The low-income allowance is \$1,300 for a single individual or \$1,300 in the aggregate for a husband and wife.

The new law for 1977 and subsequent taxable years does not change the percentage standard deduction, except for the additional amounts allowed for dependents as explained below. However, the low-income allowance has been increased for many taxpayers.

The new low-income allowance will range from \$1,300 to \$5,700 (exclusive of the additional deduction for dependents) depending on a taxpayer's income, age (under 65 vs. 65 or over) and marital status. A husband and wife may split the low-income allowance between them as desired. The 1977 income tax booklets will have a table to allow persons to easily determine their low-income allowance.

Additional Deductions for Dependents

Under the new law beginning with taxable year 1977, single individuals with total income under \$12,000 and married couples with aggregate total income under \$12,000 will increase their percentage standard deduction or low-income allowance for each dependent claimed on their tax returns. The additional deduction is as follows:

Wisconsin total income (or combined total income of husband and wife)	Addition for each dependent
Less than \$5,000	\$800
\$5,000 to \$5,999	\$700
\$6,000 to \$6,999	\$600
\$7,000 to \$7,999	\$500
\$8,000 to \$8,999	\$400
\$9,000 to \$9,999	\$300
\$10,000 to \$10,999	\$200
\$11,000 to \$11,999	\$100
\$12,000 or over	0

If persons are married, both claim the percentage standard deduction and the combined total income of husband and wife is less than \$12,000, each spouse must claim a standard deduction of 15% of his or her own income. However, any additional deduction

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which is available for dependents may be split between the spouses as they desire. One spouse may claim the entire additional amount or each spouse may claim a portion of it. For example, if there are 4 dependents and a total combined income of \$10,500 (\$8,000 earned by spouse A and \$2,500 earned by spouse B), the standard deduction would be computed as follows:

Spouse A - \$8,000 X 15% = \$1,200

Spouse B - \$2,500 X 15% = \$375

Because there are 4 dependents, an additional \$800 of deduction (4 X \$200) is available. That amount may be divided between the spouses in any manner they choose.

ELECTION CAMPAIGN FUND CHECKOFF WILL BE ON 1977 INCOME TAX RETURNS

Chapter 107, Laws of 1977 (published October 20, 1977) establishes a Wisconsin Election Campaign Fund to provide campaign funds to eligible candidates for a statewide office and the state legislature. The law (s. 71.095 (2)) requires the Department to place a space on each individual income tax return to allow taxpayers to designate \$1 to the fund.

Beginning with the 1977 income tax return, each individual filing a tax return may designate \$1 of the individual's net tax liability for placement in the Election Campaign Fund. A space will be provided on Wisconsin Forms 1 (long form) and 1A (short form) for persons to make the designation.

Only persons with a net tax liability of at least \$1 may make the designation. If a taxpayer is married, the taxpayer's spouse may also designate \$1 to the fund if the spouse has at least \$1 of net tax. If one spouse designates \$1, the other spouse is not required to also designate \$1.

A contribution to the fund will not increase an individual's tax or reduce an individual's refund.

SOME CHANGES MADE IN NEXT YEAR'S INCOME TAX FORMS

The major tax forms to be used in filing 1977 Wisconsin income tax returns have been finalized and sent for printing. The 1977 forms are generally very similar to the 1976 forms. They will, however, contain some

changes resulting from recently enacted legislation, including the 1977-79 Budget Act (Chapter 29, Laws of 1977) and the law enacting changes to the Wisconsin standard deduction and low-income allowance (Chapter 111, Laws of 1977). The more significant changes include the following:

INDIVIDUALS

1. The booklets for Form 1 (long form) and Form 1A (short form) will contain a table for persons with adjusted gross income of less than \$12,000 to determine their low-income allowance under the new law. (See related article on this item in this bulletin.)

2. Forms 1 and 1A will permit designation of \$1 of a taxpayer's net tax liability to the Wisconsin Election Campaign Fund. (See related article on this item in this bulletin.)

3. Form 1 will request taxpayers to indicate their filing status (single, married and filing a combined return or married and filing a separate return) similar to the current question on Form 1A.

4. The 1977 tax tables in Forms 1 and 1A have been expanded to cover gross tax for incomes up to \$14,000. The 1976 tables only set out the tax for incomes up to \$10,000. Persons exceeding that had to calculate their own tax. In addition, gross tax figures in the tables will be expressed in whole dollars. Amounts have been rounded to delete the cents.

5. Schedule I (used to account for differences between federal and Wisconsin law) and its instructions have been revised. The new form and instructions will reflect the differences between adjusted gross income and itemized deductions as computed for federal and Wisconsin income tax purposes for 1977. To date, there are only five such differences.

6. Wisconsin will again have a child and dependent care schedule (Schedule 2441W). Child and dependent care expenses will continue to be calculated and treated as a Wisconsin itemized deduction, differing from the federal income tax treatment of these expenses as a federal income tax credit.

7. There will be no Wisconsin sick pay schedule (1976 Schedule 2440W) for 1977. Beginning with tax year 1977, Wisconsin will recognize the same sick pay exclusion allowable for federal tax purposes.

8. Form 1 will have a line for individuals to claim a farmland preservation credit. This credit will be available for the first time.

HOMESTEAD

1. Two new questions have been added to Schedule H. These questions ask the claimant if at the time of filing Schedule H the claimant resides in a) property exempt from real estate taxes or b) a nursing home and receives medical assistance under Title XIX. Most persons answering in the affirmative will not qualify for a homestead benefit. A line has also been added to Schedule H for a claimant to enter the \$600 household income reduction factor. If a claimant, a spouse or dependent is 65 years or older at the close of 1977, household income will be reduced by \$600 for the claimant.

2. A question has been added to the rent certificate asking the landlord if the rental property is subject to real estate taxes.

HOMESTEAD FILING DEADLINE

Less than 2 months remain for eligible Wisconsin renters and homeowners to file a 1976 Wisconsin Homestead Credit Claim if they have not already done so.

December 31, 1977 is the last day for filing a claim for Homestead Credit (Schedule H) for the year 1976. The law does not permit late returns nor extensions of time to file.

So far this year, about 234,000 Homestead Claims have been filed. These claims have averaged \$205 and provided residents with nearly \$48 million in rent and property tax rebates.

For 1976, Wisconsin residents 18 years of age or older who had total household income during that year of less than \$7,500 may qualify for a benefit. Some of the requirements are:

- full year Wisconsin residency
- person cannot be claimed as a dependent on someone else's 1976 federal income tax return, except for persons age 62 or older
- person cannot be a recipient of general relief or Aid to Families With Dependent Children (AFDC) when filing the Homestead Claim.

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For information about eligibility requirements, instructions on how to file, or obtaining the form, Schedule H, contact any of the Department's 36 offices throughout the state or write to the Department of Revenue, P. O. Box 80, Madison, WI 53701.

BULK ORDERS OF TAX FORMS

The order blank (Form P-744) for requesting a bulk supply of 1977 Wisconsin income tax forms was mailed in early October. Bulk orders of income tax forms requested by professional tax preparers are subject to a minimal handling charge. However, no charge is made for forms which will be used for distribution to the general public such as is commonly done by many banks, post offices, and libraries.

Persons ordering bulk supplies of tax forms are again asked to determine their order amounts as accurately as possible. Orders for forms should be placed as early as possible. This will aid the Department in identifying possible shortages of forms.

If you are not currently on the Department's mailing list to receive the bulk order blank and would like one, call any Department office or write to the Department of Revenue, Central Services Section, P. O. Box 58, Madison, WI 53701.

INFORMATION REPORTS WILL BE REQUIRED FOR NONRESIDENT ENTERTAINERS IN 1978

Beginning January 1, 1978, every Wisconsin employer of an entertainment corporation or nonresident entertainer or athlete will be required to report to the Department certain information about each Wisconsin performance within 90 days of the performance. This law covers performances for which the contract price exceeds \$1,950. The reporting requirement was enacted in the 1977-79 Budget Act (Chapter 29, Laws of 1977).

Under the new law, an "employer" is any Wisconsin resident person or firm which engages the services of a nonresident entertainer or athlete or an entertainment corporation. In the absence of such "employer", the person required to report to the Department

will be the resident person last having receipt, custody or control of proceeds of the entertainment event.

The law defines "entertainment corporation" as a domestic or foreign corporation which derives income from amusement, entertainment or sporting events in this state or from the services of an entertainer.

The information report (Form 9C) will require such information as the name, address and Wisconsin tax identification number (if any) of the employer; the entertainer's stage name, true name, address and social security number or the name and address of the entertainment corporation; and the date, place and total amount of remuneration received for each performance.

Form 9C, which is presently being developed, should be available in December 1977 and may be obtained at that time by writing: Wisconsin Department of Revenue
Central Services Section
P. O. Box 58 (Use P. O. Box 8903 as of January 1, 1978)
Madison, Wisconsin 53701 (Use zip 53708 as of January 1, 1978)

Any questions about the requirements of this law may be directed to:
Wisconsin Department of Revenue
Compliance Bureau
P. O. Box 39 (Use P. O. Box 8902 as of January 1, 1978)
Madison, Wisconsin 53701 (Use zip 53708 as of January 1, 1978)
Phone: (608) 266-2776

REPORT ON LITIGATION

(This portion of the WTB summarizes recent significant Tax Appeals Commission and Wisconsin court decisions. In cases which decisions adverse to the Department's position are rendered, it will be noted whether or not the Department acquiesces or will appeal.)

Sterling Custom Homes Corp. vs. Department of Revenue (Circuit Court of Dane County, Case No. 154-305, May 16, 1977.) The sole issue before the court was whether Sterling Custom Homes Corporation ("Sterling") (a) was involved in selling tangible personal property in the form of building materials to contractors or builders, or

(b) was the contractor or builder and the consumer of the materials furnished.

Sterling prefabricated custom-built homes and marketed them through 15 regional sales managers who worked with local builders, contractors and realtors. Customers purchased homes from a local builder, contractor or realtor and the building permit was normally issued in the name of the builder or contractor. Sterling's contracts were with the builder-contractor. Sterling did not deal directly with the home owner, other than advising the builder-contractor of the cost of the exterior house shell. The builder-contractor forwarded each customer's plans and specifications to Sterling, which prefabricated the home in its manufacturing plant.

The builder-contractor prepared the foundation for the home and installed dry-wall, plumbing, heating and wiring in the shell. After the foundation had been prepared, Sterling's drivers delivered the sections of the exterior shell to the job-site and participated in the placement of the shell on the foundation. Sterling selected the type of crane and operator best suited to the setting and assembly of the component parts on the foundation which was done in accordance with Sterling's erection drawings.

The court found that, under these conditions, Sterling was a contractor performing a real property construction activity. It therefore was the consumer of the personal property used in this construction activity and had to pay sales and use tax on the cost of such property.

The Department has appealed this decision to the Wisconsin Supreme Court.

Moebius Printing Co. vs. Department of Revenue (Circuit Court of Dane County, Case Nos. 152-169 and 152-238, May 13, 1977.) Prior to May 12, 1972, the sales and use tax law contained a use tax exemption for advertising materials printed outside Wisconsin which were transported outside the state for use solely outside the state. The exemption resulted from s. 77.51(16), Wis. Stats., which excluded from the definition of "storage" and "use" the "keeping, retaining or exercising any right or power over tangible personal property for the purpose of subsequently transporting it outside the state for use thereafter solely outside the state."

On May 12, 1972, a sales tax exemption was established for printed material designed to advertise and promote the sale of merchandise or to advertise the services of indi-